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SUBJECT: UPDATED SCENE SETTER FOR CODEL BURTON

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[1](#)1. (U) SUMMARY: Post welcomes the members of Codel Burton to Nicaragua and has developed an agenda that addresses the Codel's interest in discussing the upcoming elections with major political parties, registering bi-partisan support for a free, fair and transparent election process, and visiting a USAID project for former gang member rehabilitation. This scene setter offers economic, USG assistance, political, and election 2006 overviews, as well as brief descriptions of planned Codel activities. The cable is organized as follows:

- Economic Background
- USAID Programs in Nicaragua
- Millenium Challenge Corporation (MCC) Program in Nicaragua
- Political Background
- The 2006 Elections
- U.S./CEPPS and Civil Society Elections Support
- Codel Burton Activities and Meetings

Specific scene setters that outline each meeting and activity in greater detail, including participants and press availability, are provided separately by e-mail to Mark Walker. END SUMMARY.

Economic Background

[1](#)2. (U) Nicaragua has come a long way since the early 1990s, when the economy was in a shambles and uncertainty prevailed. The country qualified for major debt relief under the heavily indebted poor country initiative (HIPC) and was able to manage its way through a local banking crisis precipitated in the early 2000s. Today, Nicaragua is on the right economic track and boasts a fairly healthy business environment. In 2005, GDP grew 4%, down from 5.1% in 2004. In 2005, rising oil prices caused inflation to rise slightly to 9.6%. To achieve long-term success, Nicaragua must maintain macroeconomic and political stability, educate more of its population, foster greater investment (especially in the power and transportation sectors), reform the judicial system, and resolve Sandinista-era property confiscation cases and problems in the registration of land titles.

[1](#)3. (U) Since April 1 2006, Nicaragua has implemented CAFTA-DR with noticeable effect on its bilateral trading relationship with the United States. U.S. exports to Nicaragua in the second quarter of 2006 exceeded those in the previous quarter by 10%. Nicaragua's exports to the United States in the second quarter exceeded those in 2005 by almost 29%. Much of this latter increase is related to new U.S. markets for Nicaraguan agricultural and food products. Notwithstanding, the United States sustains a substantial

trade surplus with Nicaragua. Historically, the United States has been the source of roughly 20% of Nicaragua's imports and the destination for approximately 30% of its exports.

¶4. (U) CAFTA-DR is also prompting investors to take a closer look at Nicaragua. Access to the U.S. market that CAFTA-DR provides is complemented by Nicaragua's proximity to the United States, a variety of investment incentives, and low labor costs. Currently, there are about 25 wholly or partly owned subsidiaries of U.S. companies operating in Nicaragua. The largest of these are in energy, financial services, manufacturing, and fisheries. The country is also attracting U.S. investor interest in tourism.

USAID Programs in Nicaragua

¶5. (U) From 1990 to 2006, USAID assistance to Nicaragua totaled \$1.7 billion. The current assistance program includes the following overall goals: foster responsible, transparent governance; provide assistance for economic growth; promote investment in people through better governance of social institutions and improved access to quality health services and education. The 2006 USAID budget is divided thus:

Ruling Justly:	\$9.4 million
Economic Freedom:	\$14.6 million
Health/Education:	\$14.4 million
P.L. 480 Food Security:	\$9.7 million

-- Strengthening Democracy: USAID supports the modernization of Nicaragua's judicial system and legal reforms that increase access to justice, rule of law, and protection of human rights. USAID assists civil society organizations that promote legal reform, advocate for government transparency, and increase public awareness of citizens' rights. USAID also provides election support to help Nicaragua comply with internationally recognized standards for free and fair elections.

-- Increased Trade, More Jobs, Higher Incomes: USAID assistance promotes increased trade and investment, development of a competitive, market-oriented economy, and improved environmental management to help Nicaragua take advantage of the opportunities of the CAFTA-DR agreement and other free trade agreements.

-- Healthier, Better Educated People: USAID concentrates its social sector assistance on efforts to: improve government capacities to plan and manage health and education investments; increase access to quality education at the primary level; and improve health status at the household and community level.

-- Food Security: Reaching 43,700 poor rural households, activities focus on increasing the production and marketing of high-value, non-traditional crops to increase family incomes. Complementary feeding, maternal health and child survival activities improve health and nutrition in high-risk communities.

MCC Program in Nicaragua

¶6. (U) Through its MCC Compact, the Government hopes to take advantage of two major competitive pluses for Nicaragua: its fertile land and its connection to markets in Honduras, El Salvador, and the United States. After extensive consultations, the GON identified insecure property rights, under-developed infrastructure, and low value-added rural business activity as the greatest barriers to growth that could be addressed with MCA assistance.

¶7. (U) The Compact will contribute to improving the lives of the residents of Leon and Chinandega by raising the average household income and will serve as a model to replicate in

other regions of the country. The Compact has three primary objectives: increase investment by strengthening property rights in Leon; reduce transportation costs between Leon and Chinandega and domestic, regional and global markets; and help producers transition to higher value products and activities.

Political Background

¶8. (U) Since the inception of democratic rule in Nicaragua in 1990, political power has been contested between two majority forces: the Liberals on the right, and the Sandinistas on the left. The civil war and economic mismanagement in the 1980s, and the Sandinista giveaway of government property to party leaders in 1990 (the "pinata"), turned a significant majority of the population against the Sandinista Front (FSLN), preventing the FSLN from winning national elections. Recognizing demographic realities, the Sandinistas have consistently promoted divisions on the right and worked to maximize their voting strength by building a large and disciplined party structure.

¶9. (U) Nicaragua's opposition forces came together under the United National Opposition (UNO) to win the 1990 elections, but soon splintered apart. The Liberal Constitutional Party (PLC) emerged as the dominant Liberal force, in large part due to the energetic and charismatic leadership of party president Arnoldo Aleman. The rest of UNO broke away into an alphabet soup of minor Liberal parties: the traditional Conservative Party (PC), which was reduced to a small minority except in a few areas, the Nicaraguan Resistance (PRN) formed by ex-Contra fighters, and parties formed to represent the evangelical population, such as the Nicaraguan Christian Path Party (CCN), and the Christian Alternative (AC).

¶10. (U) Discontent also grew within the FSLN after the 1990 "pinata" of FSLN leader Daniel Ortega and Ortega's continued electoral defeats during that decade. Some leftist elements broke away from the FSLN during this period, most notably the Sandinista Renovation Movement (MRS) under the leadership of revolutionary activist Dora Maria Tellez. The FSLN was better able to maintain its integrity, however, using threats, coercion and discipline, and incentives. Despite repeated defeats, Ortega pledged to "rule from below" using residual Sandinista influence in governmental institutions such as the police, armed forces, and the court system.

¶11. (U) The PLC and Arnoldo Aleman emerged victorious in the 1996 national elections, but were unable to gain a supermajority (56 votes) in the National Assembly, which would have allowed the party to name Supreme Electoral Council (CSE) and Supreme Court (CSJ) magistrates without Sandinista votes. This situation led to a political pact between the PLC and FSLN to divide control of the institutions of government between the two parties, which has continued to the present time. Hence, virtually all employees of governmental institutions that are controlled by appointments by the National Assembly are affiliated with the PLC or FSLN and serve the interests of those parties.

¶12. (U) Before the 2001 election, the PLC was able to bring most of the smaller democratic parties into an alliance. Aleman personally selected Enrique Bolanos as the alliance's presidential candidate as well as many of the National Assembly and Central American Parliament deputy candidates. This process is known as the "dedazo" (finger). Bolanos won the election and instituted an anti-corruption campaign.

¶13. (U) In 2003, Aleman, who pilfered tens of millions of dollars from state coffers, was convicted of fraud and money laundering, stripped of his parliamentary immunity (which he enjoyed as an ex-President) and sentenced to 20 years in prison. This process caused a great upheaval in the Liberal ranks. When the dust settled, a small number of Liberal and Conservative deputies broke from the PLC alliance to form a new political caucus to support Bolanos, but the vast

majority remained loyal to Aleman (owing their power to Aleman's "dedazo") and condemned the President as a traitor. The Conservatives and Liberals, unhappy with Aleman's continued influence in the PLC, formed the Alliance for the Republic (APRE), a party loyal to and supported by the Bolanos administration.

¶14. (U) Aleman and Ortega manipulated the pact and Sandinista control of the judiciary to allow greater degrees of freedom for Aleman (he began his sentence in a prison cell, was moved to a hospital, then to house arrest, and now is allowed to move freely about Managua under "medical parole") in exchange for concessions to the FSLN in the CSE and CSJ. (Comment: The pact has provided obvious benefits to Aleman and Ortega, but alienated Liberals and Sandinistas disgusted with their leaders' concessions to the enemy and anti-democratic and corrupt manipulation of the powers of state. End Comment.) The pact has consistently attacked and undermined the Bolanos administration, at times threatening the stability of the country.

¶15. (U) Having won comfortable majorities since 1990, the Liberals lost badly in the 2004 municipal elections. The Sandinistas won 88 of 152 municipalities, the PLC 58, APRE five, and the PRN one. The Sandinistas claimed victory with a plurality of the vote in most of their 88 municipalities, with the PLC, APRE and other minor parties dividing the anti-Sandinista vote. The abstention rate was also slightly higher than normal, which many people blamed on the voters' unhappiness with the pact.

The 2006 Elections

¶16. (U) Three candidates emerged in 2005 to challenge the Aleman-Ortega pact. Excluded from the majority parties by the two caudillos, Sandinista dissident Herty Lewites broke from the FSLN to head the MRS ticket, and Liberal dissident Eduardo Montealegre formed the Nicaraguan Liberal Alliance (ALN) out of PLC dissidents, the PC, PRN, and other small democratic parties. PLC outcast and prominent Bolanos Administration official Jose Antonio Alvarado ran as the APRE candidate. Daniel Ortega was once again the pre-ordained candidate of the FSLN, and Bolanos' vice president Jose Rizo was chosen as the PLC candidate in April 2006.

¶17. (U) The CSE deadline to register party candidates at the end of May 2006 drove both a consolidation and division amongst the political parties. The Christian Alternative (AC) party left Lewites' alliance, changed its name to Alternative for Change (same initials) and chose the erratic Eden Pastora as its presidential candidate. Jose Antonio Alvarado became Jose Rizo's running mate in the PLC, but APRE joined the ALN. Arnoldo Aleman again imposed several unpopular PLC deputy candidates by "dedazo," causing Jose Rizo to threaten to resign his candidacy (he backed down).

¶18. (U) The political upheaval did not end in May -- MRS candidate Lewites died from heart complications in early July. Lewites' running mate Edmundo Jarquin assumed the candidacy and MRS leadership convinced popular Sandinista revolutionary songwriter Carlos Mejia Godoy to accept the vice presidential nomination. Despite predictions among some pundits that MRS votes would migrate to the FSLN, or perhaps the ALN, JarquinQ,s poll numbers remain similar to LewitesQ,. However, the shift of Liberal politicians back and forth between the PLC and ALN, depending on their calculation of personal benefit, continues.

¶19. (U) Since the beginning of the official campaign in mid-August, relations between the ALN and PLC have continued to deteriorate. The PLC has accused Montealegre of bilking the Nicaraguan people out of hundreds of millions of dollars by undervaluing the assets of failed banks, forcing the Central Bank to make up the difference in Negotiable Indemnization Certificates (CENIs, or debt bonds). Although completely fabricated, the mediaQ,s vigorous pursuit of the story had been hurting MontealegreQ,s campaign by raising

doubts among independent voters and diverting his attention from the campaign. However, the recent denunciations of a PLC insider have exposed the CENI scandal as nothing more than a plot to discredit Montealegre and have implicated senior PLC officials including Presidential candidate Jose Rizo.

¶20. (U) The bad blood caused by the PLCQ,s smear campaign and RizoQ,s insistence on remaining a Presidential candidate, make a union of the liberal parties increasingly unlikely. With the Sandinistas also divided into two parties, it appears there will be five candidates on November 5.

¶21. (U) The latest CID-Gallup-sponsored official poll released at the end of August showed the following results for the parties:

FSLN:	29%
ALN:	23%
PLC:	14%
MRS:	14%
AC:	1%
None:	19%

¶22. (U) As with earlier polls, the CID-Gallup poll showed that the FSLN would lose in a second round and the ALN would be the likely winner. Thus the FSLN is focusing all its efforts on a first round victory by leveraging a pact-inspired change in the Electoral Law that enables a front-running candidate to win the election in the first round with only 35 percent if there is a five percent lead over the next most popular contender.

¶23. (U) Results of an M and R poll released September 11 (poll conducted on September 7-8, sample size 802 nationwide, 3.5% error) showed Montealegre as the candidate most widely perceived to be the next President. Interestingly, Carter Center representatives dismissed the poll results, given the small sample size and the fact that it did not include truly rural voters (M&R reached out only to people with phones.).

Q: Who do you think will be the next President?

Montealegre:	35.2%
Ortega:	22.3%
Unknown/no answer:	18.6%
Jarquín:	12.5%
Rizo:	11.1%
Pastora	0.1%

Q: Who do you intend to vote for?

Montealegre:	36.2%
Jarquín:	19.2%
Ortega:	16.7%
Unknown/no answer:	16.2%
Rizo:	11.1%
Pastora	0.1%

¶24. (U) On September 13, CNN and Channel 2 co-sponsored a presidential debate featuring Montealegre, Rizo, Jarquin and Pastora. Daniel Ortega did not participate, declaring the debate format "artificial." According to M and R, 113,000 households in Managua watched the debate and Jarquin was perceived as the winner, followed by Montealegre. Jarquin, about whom there were initial doubts because he lacks LewitesQ, charisma, continues to perform well and draw voters from both the FSLN and ALN.

U.S./CEPPS and Civil Society Election Support

¶25. (U) The Consortium for Elections and Political Processes Strengthening (CEPPS) partners IFES, IRI, and NDI and their local affiliates are now fully engaged in helping Nicaraguans prepare for their November 5 national elections. Although the election program activities are exerting a significant positive impact on the electoral environment, significant challenges remain. Ortega remains outspoken against international observers, the CSE has fallen behind in the

voter ID distribution process and IRI has recently come under fire for the production of dated political party poll watcher training manuals. Despite these difficulties, the CEPPS partners continue to forge ahead. A summary of CEPPS efforts:

-- The final electoral regulation governing electoral challenges or "impugnaciones" was released on September 7. Domestic observation groups Ethics and Transparency (ET) and the Institute for Development and Democracy (IPADE) have come out strongly criticizing the regulation, highlighting the increased potential for manipulation of the process by nullifying entire voting stations. The new electoral challenge regulations lower the burden of proof required to justify nullification of entire voting centers, leaving the door open for cases such as Granada. With NDI support, IPADE held an international conference on the challenges process September 12. Electoral experts from the US, Mexico, and Costa Rica analyzed the regulation and implications for the upcoming elections. IPADE is preparing a conference paper highlighting concerns over the legal challenge regulation and proposing best practices for the upcoming election.

-- Voter List Audit and Voter ID Study: NDI, working with ET, finalized a civil society audit of the voter roll (padron) and a three-month study of the process to acquire a voter ID (cedula). According to the voter roll audit, roughly 25% of the voting population is incorrectly listed on the padron, which will impede their ability to vote. Further, 10% of the voting population (individuals currently possessing a national/voter ID) is not included in the padron. The voter identification study revealed the need for effective distribution of voter IDs. Of the 537 individuals who applied for national identification cards at the beginning of the study, only 101 (18.8%) received their ID cards in the 90 day period prescribed by law. The study will be extended through the election to ensure the CSE is implementing the recommendations proposed by ET to expedite the delivery of voter IDs in the run-up to the elections. NDI has offered to provide training to all the political parties on how to use the findings of the voter roll audit and the voter ID study to ensure their constituents are registered to vote and have the necessary documentation to participate in the election.

-- IFES Support to the CSE: Based on an assessment of technical deficiencies within the CSE and lessons learned from the Atlantic Coast election, IFES is conducting train-the-trainer sessions for national, regional, and municipal CSE officials involved in the electoral process. Additionally, they have conducted a survey of all outstanding voter IDs. IFES estimates roughly 200,000 new voter IDs must be produced and distributed prior to the election. Additionally, approximately 200,000 voter IDs from previous years have not been distributed. This information has been included in the CSE hotline and website, as well as in guides and CDs distributed throughout the country. With IFES support, the CSE has refurbished an electoral bus that will be used to provide election information and distribute voter IDs throughout the 17 Departments. Three motorcycles have been purchased to access remote communities.

-- Voter Education and Awareness: IRI is providing grassroots voter education and awareness projects with four Nicaraguan civil society organizations. Youth Vanguard distributed flyers promoting voting and obtaining voter ID cards at university campuses from April through July. Movement for Nicaragua (MpN) placed both radio and television ads encouraging citizens to obtain their voter IDs prior to the August 6 deadline. MpN and IPADE canvassed secondary schools encouraging 16-18 year olds to participate in the electoral process and obtain a voter ID. Youth organization JUDENIC initiated a "Rock the Vote" campaign on August 14. The campaign, which challenges youth to participate in the electoral process, includes TV and radio spots and eight concerts throughout the country.

-- Political Party Poll Watchers: To defend the minority party vote, IRI is training 12,000 political party poll

watchers for the MRS and 18,000 for the ALN. Political party poll watcher manuals, which were developed by IRI several months ago, were pulled from circulation following criticism by the CSE for the use of outdated electoral information. The manuals are currently being updated with the latest electoral regulations.

Codel Burton Activities and Meetings

¶26. (U) Meeting with ALN Representatives: The Codel will have breakfast with Eduardo Montealegre, presidential candidate of the Nicaraguan Liberal Alliance, and other ALN officials to discuss the upcoming national elections. Montealegre has promised to destroy the PLC-FSLN pact, fight poverty, promote economic growth using micro-finance programs and DR-CAFTA. Although he is seen as the most viable rival to the FSLN, his campaign continues to struggle with internal unity, reaching rural voters and inadequate campaign finances.

¶27. (U) Meeting with Vice Minister of Foreign Affairs: The Codel will meet with Javier Williams-Slate, VM of Foreign Affairs. Williams-Slate, a Miskito, is very knowledgeable about the current political situation on the Atlantic Coast, one of the regions where electoral fraud is of greatest concern.

¶28. (U) Meeting with OAS Representatives: The Codel will lunch with the President of the OAS Election Observer Mission (EOM), Gustavo Fernandez, technical director Patricio Gajardo and special envoy to facilitate dialogue in Nicaragua, Dante Caputo (former Argentinean Foreign Minister). The OAS EOM is engaged with the CSE (and others in the GON) to ensure the November elections are transparent and fair. In August, the OAS issued an interim report on Nicaragua's electoral process and there is discussion about an October update. The OAS, who will field 200 observers on Election Day, has been repeatedly and harshly criticized by Daniel Ortega, who claims the OAS is seeking to discredit the election results in case of an FSLN victory.

¶29. (U) USAID Fenix Foundation: Launched in 1997, Fenix runs a small farm on the outskirts of Managua that provides employment and training (including AIDs awareness and prevention) to former gang members between the ages of 16-21 seeking to reintegrate into society. Rep. Burton will participate in a short hand-over ceremony of a vehicle. Ceremony will include the Fenix Director and a police representative with extensive gang-related experience. This will be a press event.

¶30. (U) Meeting with MRS Representatives: In the afternoon, the Codel will meet with MRS senior staff (Jarquin will be campaigning in the northern departments Sept 21-24). Jarquin spent the last several years outside of Nicaragua working at various international institutions. He was the MRS vice presidential candidate prior to the unexpected death of Herty Lewites in early July. Jarquin has promised to uphold Lewites' legacy and fight the PLC-FSLN pact, and claims that he offers Nicaraguan voters a "responsible Left" option. (Comment: The Codel may wish to ask Jarquin's team how an MRS administration would handle relations with Venezuela and Cuba and inquire about his views on CAFTA. End Comment.)

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